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New Issue

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Metropolitan St. Louis Sewer District

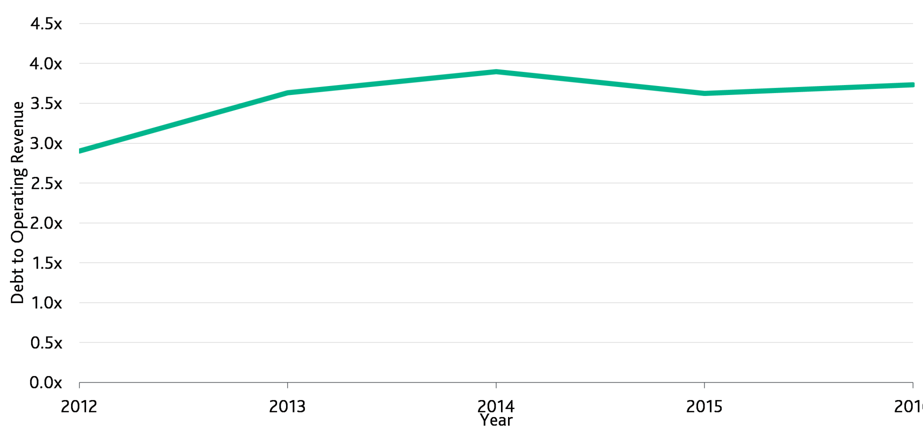
New Issue: Moody's assigns Aa1 to Metropolitan St. Louis Sewer District, MO's $150M Wasterwater Rev. Bonds, Series 2016C

Summary Rating Rationale

Moody's Investors Service assigned a Aa1 rating to Metropolitan St. Louis Sewer District, MO's $150 million Wastewater System Improvement and Refunding Revenue Bonds, Series 2016C. Concurrently, Moody's affirmed the Aa1 rating on the district's $860 million of outstanding parity debt. The ratings also take into consideration $344 million in outstanding subordinate lien state revolving fund bonds that are not rated by Moody's. The outlook is stable.

The Aa1 rating reflects the district's stable financial performance, the result of annual rate increases, prudent management practices and conservative budgeting. The rating also reflects management's ability to successfully manage through the initial stages of a $4.7 billion (in 2010 dollars) consent decree. The decree primarily requires the significant reduction of combined and sanitary sewer overflows. The rating is also based on the district's large and diverse service area that encompasses the City of St. Louis (A2 negative) and St. Louis County (Aaa stable), an increasing debt profile with sound debt service coverage, and satisfactory legal covenants and no debt service reserve with the current issuance.

Exhibit 1



Source: Metropolitan St. Louis Sewer District

Credit Strengths

» Established annual rate increases

» Stable financial metrics and debt service coverage

» Stable and large customer base and service area

» Prudent fiscal management and conservative budgeting

Credit Challenges

» Significantly high debt profile

» Plans for additional borrowing related to consent decree

» Current offering does not benefit from debt service reserve fund

Rating Outlook

The stable outlook reflects the district's large service area encompassing the St. Louis metro area, and continued strong financial performance due in large part to multiyear adopted annual rate increases and prudent management practices.

Factors that Could Lead to an Upgrade

» Strong management of the significant consent decree driven capital program.

» Rate management to incorporate capital needs while maintaining strong debt service coverage.

» Trend of strong balance sheet performance and improvement of liquidity while supporting the capital plan with equity financings to manage the debt burden.

Factors that Could Lead to a Downgrade

» Narrowed liquidity or debt service coverage

» Inability to successfully manage consent decree

» Significant decline in system demand

Key Indicators

Exhibit 2

Metropolitan St. Louis Sewer District					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	35 years				
System Size - O&M (in $000s)	171,318				
Service Area Wealth: MFI % of US median	117.4%				
Legal Provisions					
Rate Covenant (x)	1.15				
Debt Service Reserve Requirement	DSRF funded at less than 3-prong test OR springing DSRF				
Financial Strength					
	2012	2013	2014	2015	2016
Operating Revenue ($000)	226,940	241,555	267,092	291,392	322,358
O&M ($000)	135,232	146,372	153,222	163,288	171,318
Long-Term Debt ($000)	658,396	877,067	1,040,821	1,056,509	1,203,367
Annual Debt Service Coverage (x)	2.35	1.91	2.56	2.07	2.05
Cash on Hand	309 days	372 days	449 days	297 days	390 days
Debt to Operating Revenues (x)	2.9x	3.6x	3.9x	3.6x	3.7x

*Financials are inclusive of the wastewater segment only.
Source: Moody's Investor's Service, Metropolitan St. Louis Sewer District CAFRs

Detailed Rating Considerations

Service Area and System Characteristics: Large Service Area and Diverse Customer Base

The district's large customer base and service area will remain stable in the near term. The district owns and operates the system, which consists of sanitary stormwater and combined stormwater collection sewers, pumping stations and wastewater treatment facilities. The service area includes 525 square miles, the City of St. Louis represents approximately 20% of the customer base while the remaining 80% within St. Louis County. The district encompasses five watershed areas and serves a population of roughly 1.3 million. The district entered into a significant $4.7 billion (2010 dollars) consent decree in April of 2012 and will take 23 years to complete. Capital expenditures of approximately $1.5 billion are projected during 2017-2020 to address system overflows, approximately doubling capital expenditure levels from 2013-2016.

The district's customer base is large and relatively diverse (residential at 73% of revenues, commercial and industrial at 27%), which are both projected to remain steady over the medium term. The district provides secondary treatment for an average daily flow of more than 335 million gallons per day (MGD), a treatment capacity of 538 million MGD, and operates seven treatment facilities. The district serves roughly 420,000 wastewater accounts. The top ten largest customers account for a modest 5.35% of total user charges in 2016. Anheuser-Busch InBev SA/NV (A3 stable) is the district's largest customer representing 1.80% of total user charges. Other large customers include Washington University, MO (Aaa stable), Boeing Company (The) (A2 stable) and the City of St. Louis.

Debt Service Coverage and Liquidity: Financial Performance and Position Bolstered by Adopted Rate Increases

The district's financial performance remains stable, reinforced by conservative projections, close monitoring of expenditures and established multi-year rate increases. Rate increases have fostered healthy revenue growth in recent years. Operating revenues in fiscal 2016 totaled $320 million; net revenues were $151 million which provided an average 2.05 times coverage of total debt service and 3.26 times coverage of senior lien debt service. Net revenues provide 1.43 times coverage of projected maximum annual debt service (MADS) of $106 million in 2022.

The board of trustees, via recommendation from the rate commission, has approved a rate structure that increases rates on average 10.4% annually from 2016 to 2020. The rate structure includes $900 million in authorization of new debt by 76% of voters in April 2016 for future capital projects. The board had also approved a more aggressive rate structure in the event that bond authorization was not approved by voters. Adopted multiyear rate increases are a favorable credit trend in that the revenue growth is expected; all else equal, to maintain strong financial management through ongoing use of reserves and capital investment.

LIQUIDITY

Liquidity remains strong. Unrestricted cash and investments totaled $182.9 million at fiscal year-end 2016, or a healthy 390 days cash. Officials anticipate building liquidity to 524 days in fiscal 2017, but utilizing some of the cash to equity fund some capital investments. Over the medium term (2017-2020), officials anticipate drawing down liquidity to a low point of 376 days to facilitate pay-go funding of capital expenditures. Officials plan to equity fund aproximately 28% of the capital expenditures for the next four years ending 2020. Given current financial metrics and established multi-year rate increases, healthy liquidity will be maintained over the near-term.

Including the unrestricted long-term investments, unrestricted cash and investments totaled $339.9 million or 724 days cash in fiscal 2016. Moody's notes the district's long-term investment portfolio consists mainly of treasury notes. The average days to maturity of the portfolio is 588 and average of 1.6 years in duration.

Debt and Legal Covenants: Debt Profile Moderated but Expected to Grow as District Manages Consent Decree

Post-sale and inclusive of the anticipated December 2016 issuance of $95.5 million 2016A/B SRF Bonds, the district will have a significant $1.45 billion in outstanding debt. Debt to operating revenue has increased over the past several years to 4.4 times (post sale and inclusive of 2016A/B SRF Bonds) given the significant recent debt issuance associated with the consent decree. Over the medium term to 2020, debt is expected to increase to $2.05 billion with debt to revenues increasing to 4.7 times. The debt profile will be managed closely to ensure net revenues of the system remain strong to meet debt service requirements and that borrowing is strategic in terms of the overall capital improvement plans, the consent decree, and the life of the assets that bond proceeds will fund.

DEBT STRUCTURE

The district's debt structure is relatively straight forward. The post-sale payout schedule indicates total annual debt service requirements from $101 million to $106 million through 2027 before slowly declining to full maturity in 2046. MADS is projected at $106 million in 2022. Payout of debt is below average with 33% of principal retired over the next 10 years.

DEBT-RELATED DERIVATIVES

All outstanding debt is fixed rate, and the district is not a party to any interest rate swap agreements.

PENSIONS AND OPEB

The district offers a defined benefit plan providing retirement, death and disability benefits to full-time employees commencing service prior to December 31, 2010. The plan has 1,531 total members, down 2.9% over the past two years. The plan is not accepting new entrants, a credit positive. Pension contributions totaled $10.1 million in fiscal 2016. Moody's notes the district favorably changed its pension plan to a defined contribution plan effective in 2011.

Over time the district's OPEB liability has been reduced by changes in benefits offered to existing and future retirees. The district continues to follow a pay-go approach to its OPEB costs.

Management and Governance

An experienced management staff is a key credit factor for the district. The district is governed by a six-member board of trustees, of which three members are each appointed by the Mayor of St. Louis and the St. Louis County Executive. A rate commission, inclusive of vested parties associated with the district and their services, reviews proposed changes to rates and charges and makes recommendations to trustees.

Legal Security

The legal provisions outlined in the master and supplemental bond ordinances provide satisfactory security for bondholders. Debt service on the current bonds is secured by a senior lien on the net revenues of the wastewater system and is on parity with the district's previously issued senior lien wastewater revenue bonds. Pledged revenues explicitly exclude storm water system revenues. The rate covenant calls for net revenues to provide at least 1.25 times annual debt service coverage on all senior lien bonds and 1.15 times debt service coverage on all debt, including subordinate lien debt which consists of state revolving fund loans.

An additional bonds test calls for net revenues to equal 1.25 times MADS on all senior lien debt and 1.15 times MADS on all debt for either 12 consecutive months during the most recent 18 month period or in the financial forecasts for the next three fiscal years. The

Series 2016C and 2015B Bonds do not have debt service reserve. The debt service reserve requirement on other issued parity senior lien bonds is the lesser of 10% of the principal on the senior lien bonds; MADS on senior lien debt; or 1.25 times average annual debt service on senior lien debt. The debt service reserve is cash funded.

Use of Proceeds

Proceeds from the Series 2016C Bonds will be used to complete upgrade and rehabilitation projects throughout the district which are in line with the district's long-term capital improvement plan and consent decree and partially refund Series 2011B, 2012A and 2013B for economic savings.

Obligor Profile

The district owns and operates the system, which consists of sanitary, stormwater and combined collection sewers, pumping stations, and wastewater treatment facilities. The service area includes 525 square miles, the City of St. Louis, and 90% of St. Louis County. The district encompasses five watershed areas and serves a population of roughly 1.3 million.

Methodology

The principal methodology used in this rating was US Municipal Utility Revenue Debt published in December 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

Metropolitan St. Louis Sewer District, MO

Issue	Rating
Wastewater System Improvement and Refunding Revenue Bonds Series 2016C	Aa1
Rating Type	Underlying LT
Sale Amount	$150,000,000
Expected Sale Date	12/19/2016
Rating Description	Revenue: Government Enterprise

Source: Moody's Investors Service

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